

# **ILLINOIS GRAIN INSURANCE CORPORATION BOARD MEETING**

Tuesday, March 27, 2012

## **I. Welcome**

Robert Flider, Director of the Illinois Department of Agriculture ("IDOA") and President of the Illinois Grain Insurance Corporation ("IGIC") called to order a regular meeting at approximately 10:07 a.m. in Room 66 of the IDOA on Tuesday, March 27, 2012. The agenda was posted prior to the meeting and distributed to the Board members of the Advisory Committee.

## **II. Roll Call**

A. Secretary designee Karen McNaught called the roll. Present were Robert Flider (President of the IGIC); Karen McNaught, secretary and designee for Attorney General Lisa Madigan; and Keith Fanning, designee for the Illinois Department of Insurance. Also present was Robert Crossen, a representative of the Office of the Treasurer.

B. Others present included members of the Advisory Board, attendees, and IDOA staff:

Blain Cornwell; Community Bankers Association; Advisory Committee  
Don Ludwig; Grain & Feed Association of Illinois; Advisory Committee  
Dan Litteken; Grain & Feed Association of Illinois; Advisory Committee  
Jeff Adkisson; Grain & Feed Association of Illinois  
Ben Jackson; Illinois Bankers Association  
Phil Thornton; Illinois Corn Growers Association  
Dale Hadden; Illinois Farm Bureau; Advisory Committee Member  
Rae F. Payne; Illinois Farm Bureau  
Dave Ramsey; Illinois Farmers Union; Advisory Committee  
Dan Farney; Illinois Soybean Association; Advisory Committee  
Rick Boyd; IDOA staff  
Jim Larkin; IDOA staff  
Stuart Selinger; IDOA staff

## **III. Treasurer's Report**

A. Robert Crossen representative from the Illinois Treasurer's Office provided the following report.

Balances as of December 31, 2011 were \$7,066,949.34. January and February of 2012 currently are being reconciled. The money market fund

balance is invested in Illinois Funds, which currently is earning interest at approximately 10 basis points.

- B. Keith Fanning moved to adopt the Treasurer's Report. Karen McNaught seconded the motion. After a vote on the motion, the Treasurer's Report was approved.

#### IV. Secretary's Report

- A. The minutes of the March 28, 2011, regular meeting were distributed prior to the meeting. There were no additions or corrections.
- B. Keith Fanning moved to approve the minutes as written, and Director Flider seconded the motion. There being no discussion, the motion was called for a vote and the minutes were approved.
- C. The minutes will be available on the IDOA website at [www.agr.state.il.us](http://www.agr.state.il.us), (then click on Inspections & Regulation then on Warehouses/Coops).
- D. At approximately 10:14 a.m. IDOA Chief Fiscal Officer Laura Lanterman joined the meeting.

#### V. New Business

- A. Stuart Selinger reported that the balance of the Illinois Grain Insurance Fund is \$7,155,896.74. The Illinois Grain Insurance Fund is the highest it has ever been. As of February 29, 2012, the Fund had a current equity balance that exceeds \$6,000,000.00. The Illinois Grain Code provides that no additional assessments shall be made at this time. Revenues as of February 29, 2012, included:

Emergency capacity assessments	\$ 2,369.00
Interest from Illinois Funds	\$ 2,858.40
Newly licensed grain dealer assessments	\$ 38,826.00
Newly licensed warehouse assessments	\$ 17,907.00
Penalties	\$ 3,250.00
Permanent capacity assessment	\$ 44,567.00
Printer fees	\$ 2,700.00
Recovery on claims paid	\$ 3,668.00
Temporary capacity assessments	\$ 25,479.50
Total revenues for the fiscal year to-date are	\$141,652.49

There have been no encumbrances or expenditures from Grain Insurance Fund as of February 29, 2012, for the fiscal year to-date. A copy of the Grain Insurance Fund Balance Sheet is attached hereto as Exhibit A.

B. Update on Grain Dealer & Grain Warehouse Licensures.

Stuart Selinger reported that there are 289 total companies. Of these there are:

276	regular grain dealers
<u>6</u>	incident grain dealers
282	total grain dealers

238	Class I warehouses
13	Class II warehouses
<u>21</u>	federal licenses (of these 13 are members of the IGI program)
272	total grain warehouses

There are total of 1,013 locations with a total storage capacity of 1,235,080 bushels.

C. Insolvency Update

Stuart reported that there have been no failures and since November 2010. For the last failure, there were no withdrawals from the Grain Insurance Fund and all claimants paid 100 percent. The last failure in which funds were drawn from the Fund was in March 2008 when the Grain Exchange surrendered its license.

D. Mandatory Ethics Training for Board Members

All Board members, designees, and Advisory Board members were reminded to complete mandatory ethics training for Appointees to State of Illinois Boards and send to Brett Eggleston. The training consists of reading the packet and then signing the acknowledgment page. When the form is completed, it should be returned to Stuart Selinger or Brett Eggleston at the IDOA. A copy will be kept on file by the IGIC Secretary. Board members, designees, and Advisory Board members encouraged to keep a copy for their own files as well.

E. Open Meetings Training

Karen McNaught advised that as of January 1, 2012, all Board members, designees, and Advisory Board members are now required to participate in Open Meetings Act training. This training is located on the Attorney General's website ([www.illinoisattorneygeneral.gov](http://www.illinoisattorneygeneral.gov)) under "Ensuring Open and Honest Government). Karen McNaught did a short presentation on how to access and take the training. At the conclusion of the training, a certificate is available for printing. A copy of this certificate should be sent to Stuart Selinger at the IDOA and a copy of the certificate also will be kept by the

Secretary. Stuart Selinger will send an e-mail to all members of the Board with the link and directions on how to take the training.

F. Biennial Audit Report

Stuart Selinger reported that the audit which is completed every two years was released yesterday. A copy of the audit report was distributed. Stuart highlighted at page 11 a repeat finding that the reserve fund not funded at \$2 million. The General Assembly has not provided funding for the reserve. Laura Lanterman stated that the reserve fund was implemented as a knee-jerk reaction from a failure that hopefully will not be repeated.

Director Flider indicated that he has discussed among IDOA staff and asked whether it would be better to continue to have this repeat finding or consider an amendment to the Grain Code to eliminate the reserve fund. Jeff Adkisson indicated that the Grain & Feed Association would take a look at the theoretical overdraft protection, but he had a concern about opening the Code to further amendments. Rae Payne indicated most of the interest groups have condoned the audit findings and he also expressed reservations with proposed amendments to the Code.

Stuart Selinger continued with the other finding, which included errors in subsequent assessments. However, this was not a material finding, although the IDOA needed to reconcile the errors. In that regard, Stuart Selinger and Laura Lanterman have worked together to develop a plan to resolve any deficiencies.

Rae Payne then asked about staffing levels. Stuart indicated the IDOA currently employs 15 warehouse examiners who have been able to meet the requirements of performing exams. Stuart stated that through mergers and consolidations, there is a greater storage capacity and the locations remain steady, but the number of grain companies has decreased. When asked, Stuart Selinger said that when he commenced employment there were 42 examiners. However, because of technology, staff have computers which enables them to work more efficiently. Although the exams are larger and more complex, examiners do not have to perform as many exams, because there are fewer companies. Stuart Selinger indicated during questioning by Rae Payne and Jeff Adkisson that retirements are going to be a problem because 8 of 15 examiners will retire in the next 5 years. Of those 8, five will be eligible to retire in the next 16 months. Stuart also indicated upon further questioning by Dan Litteken that the examiner job requirements include a 4-year degree in agri-business or like experience.

G. Inventory and Accountability Reporting

Stuart Selinger indicated licensees are engaging in self-reporting and there are no issues. Licensees measure one time per month; archive the information, and keep it on computer for examiners. There is no requirement to submit information monthly to the IDOA, although examiners can review the information at any time upon request. During an Inventory Control Exam data is reviewed for grain inventory to ensure the grain is at the facility.

Jeff Adkisson indicated that some members do not like self-inventory, but other members have been measuring for years and have no complaints. However, members have expressed concerns of staffing levels at the IDOA for warehouse examiners. Stuart Selinger indicated that if there were to be a failure, they would pull staff away from exams, but presently there does not seem to be issues. Stuart also indicated that there used to be exams performed three times in two years, but now one exam is performed each year according to the statute.

Dan Litteken stated that examiners cannot do audits without inventory. He indicated it is a good system, but the industry does not like having to do the inventories. Rae Payne and Jeff Adkisson expressed they would like to support the IDOA in obtaining the staff that is necessary to adequately conduct audits. Director Flider indicated there is a reduction in employees at the IDOA, because of the Governor's mandate to cut spending. Director Flider stated that the IDOA has attempted to bring in revenue and that the General Revenue Fund is less because of pension and Medicaid issues. Director Flider indicated the Governor wants to get this resolved this legislative session and is asking staff to try to do the job wiser, and the Governor is encouraging the members of the General Assembly to resolve the issues this fiscal year, because problems will only continue until the fiscal issues are stabilized.

Rae Payne asked Jeff Adkisson what concerns the Grain & Feed Association members had with self-inventories. Jeff Adkisson indicated that some members may feel they do not know how to do the inventory while others believe their neighbors may not be performing inventories with honesty or integrity. He also indicated there is some complaint of government intrusion on how to run a business.

Rae Payne emphasized that the industry is concerned with wanting to ensure that the IDOA has resources in the next 15 years to adequately perform regulatory duties. He stated there may be fewer insolvencies, but catastrophic losses. Donald Ludwig indicated the general health of industry is improving, but trends could turn and there could be disastrous losses. He gave the example of HF Global, where an outside source contributed to the failure.

Rae Payne then asked about the growing trend of on-farm storage and whether the IDOA was regulating producers who store for landlords. Stuart Selinger stated this is usually a business relationship between a tenant and landlord, and the IDOA does not require licenses.

H. Review of IGIC By-laws

Consideration is being given to amend the by-laws, because the biennial audits are conducted traditionally in December of even numbered fiscal years. To amend the by-laws, two meetings will be required. The meeting for the first reading of the amendment to the by-laws was scheduled on April 9, 2012 at 10:00 a.m. at the IDOA.

VI. Old Business

A. The Grain Exchange

The Grain Exchange located near Carlyle in Clinton County failed in March 2008. Stuart Selinger reported that in December 2011, John Kniepmann pleaded guilty to two federal counts of wire fraud and insurance fraud. Although Kniepmann is to be sentenced on April 6, 2012, there will most likely be a request for a continuance. Stuart indicated that under the federal sentencing no guidelines, 18-24 months will be recommended with no requirement of restitution.

In the State case, Kniepmann is charged with 12 felonies for grain insurance fraud and 1 count of theft. The case is pending in Clinton County. Stuart reported that Kniepmann is considering whether to plead guilty to the State felony charges. The State, as a condition of any plea agreement, wants to require that Kniepmann agree not to engage in future grain business and that he be required to pay restitution. However, Kniepmann is balking at restitution as a condition, even though he has a civil lawsuit against his Certified Public Accountant.

B. Indemnity Trust Account Update

Stuart Selinger reported that there are no indemnity trust fund accounts which are due back to Grain Insurance Fund. Currently, there is \$49,000 in grain asset preservation fund, which is interest from the Illinois Grain Insurance Fund, and this amount have a balance of less than \$50,000.

Stuart explained that if there are equity assets during a failure, the preservation fund can be used to preserve assets. For example, if money is owed on a vehicle, preservation funds can be used to pay off the loan and then sell the vehicle for the equity.

VII. Adjournment

- A. Director Flider indicated that the next regular meeting was scheduled for March 26, 2013, at 10:00 a.m. at the Illinois Department of Agriculture. The agenda and room number will be posted at a later time.
- B. Laura Lanterman made a motion to adjourn the regularly scheduled meeting. Keith Fanning seconded the motion. There being no further business of the Illinois Grain Insurance Corporation, the meeting was adjourned at approximately 11:03 a.m. on March 27, 2012.

Respectfully submitted,

March 27, 2012

/s/ Karen L. McNaught

Karen L. McNaught  
Secretary Designee

**ILLINOIS GRAIN INSURANCE FUND**  
**BALANCE SHEET**  
**AS OF FEBRUARY 29, 2012**

**Assets:**

Cash	\$7,097,507.99	
Grain Seller Assessment Receivable	\$14.56	
Lender Assessment Receivable	\$0.00	
Subsequent Assessment Receivable	\$0.00	
Newly Licensed Assessment - Grain Dealer Receivable	\$250.00	
Newly Licensed Assessment - Grain Warehouse Receivable	\$0.00	
Permanent Capacity Assessment Receivable	\$2,763.00	
Temporary Capacity Assessment Receivable	\$3,787.50	
Emergency Capacity Assessment Receivable	\$1,972.00	
Penalties Receivable	\$0.00	
Interest Receivable	\$0.00	
Recovery on Claims Receivable	\$0.00	
<b>Total Current Assets</b>		<b>\$7,106,295.05</b>

**Other Assets:**

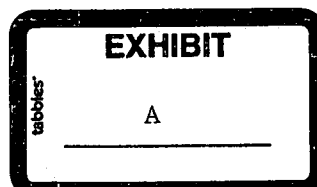
Due From Grain Indemnity Trust Account	\$49,601.69	
<b>Total Other Assets:</b>		<b>\$49,601.69</b>
<b>Total Assets</b>		<b>\$7,155,896.74</b>

**Liabilities:**

Due to General Fund	\$0.00	
Due to Grain Indemnity Trust Account	\$0.00	
Refunds Payable	\$0.00	
Deferred Revenue	\$0.00	
<b>Total Liabilities</b>		<b>\$0.00</b>

**Fund Equity:**

Retained Earnings (net profit / net loss Year to Date)	\$141,652.49	
Fund Balance	\$7,014,244.25	
Reserve for Encumbrances	\$0.00	
Reserve for Encumbrances - Prior Year	\$0.00	
<b>Total Fund Equity</b>		<b>\$7,155,896.74</b>
<b>Total Liabilities and Fund Equity</b>		<b>\$7,155,896.74</b>





**ILLINOIS GRAIN INSURANCE FUND  
STATEMENT OF INCOME (LOSS)  
MONTH OF FEBRUARY 2012**

	<u>MONTH</u>	<u>YEAR TO DATE</u>
<b>Revenue</b>		
Grain Seller Assessment	\$0.00	\$0.00
Lender Assessments	\$0.00	\$0.00
Subsequent Assessment	\$0.00	\$0.00
Newly Licensed - Grain Dealer Assessment	\$0.00	\$38,826.00
Newly Licensed - Grain Warehouse Assessment	\$0.00	\$17,907.00
Permanent Capacity Assessment	\$2,763.00	\$44,567.00
Temporary Capacity Assessment	\$3,787.50	\$25,479.50
Emergency Capacity Assessment	\$2,072.00	\$2,369.00
Penalties	\$250.00	\$3,250.00
Printers Fees	\$200.00	\$2,700.00
Interest on Grain Indemnity Trust Account Funds	\$3.77	\$27.59
Interest on IL Prime Fund	\$0.00	\$0.00
Interest on ILLINOIS FUNDS	\$539.04	\$2,858.40
Reimbursement from Grain Indemnity Trust Account	\$0.00	\$0.00
Subsequent Assessments Written Off	\$0.00	\$0.00
Services in Kind From IDOA	\$0.00	\$0.00
Recovery on Claims Paid	\$316.16	\$3,668.00
<b>Total Revenue</b>	<b>\$9,931.47</b>	<b>\$141,652.49</b>
<b>Encumbrances</b>		
Recovery Expense	\$0.00	\$0.00
Disbursement to Grain Indemnity Trust Account	\$0.00	\$0.00
Disbursement to Grain Indemnity Trust Account - Authorized Refunds	\$0.00	\$0.00
Disbursement to Grain Asset Preservation Account	\$0.00	\$0.00
Disbursement to General Revenue Fund	\$0.00	\$0.00
Miscellaneous Adjustment	\$0.00	\$0.00
Personal Services Provided By IDOA	\$0.00	\$0.00
Loss on Licensee Failure	\$0.00	\$0.00
<b>Total Encumbrances</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Net Increase (Decrease) in Fund</b>	<b>\$9,931.47</b>	<b>\$141,652.49</b>